

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SS-15 SP-02 IO-11 L-03 H-02 INR-07

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R 140619Z JAN 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 6072

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E.O. 11652: N/A

TAGS: EAID US JA TQ

SUBJ: MICRONESIA CLAIMS AGREEMENT: POSSIBLE MAJOR ALTERATION TO
LIST OF PRODUCTS AND SERVICES

SUMMARY. DURING VISIT TO TOKYO INTERIOR DEPT DOTA DIR ZEDER
DISCUSSED POSSIBILITY OF TERMINATING PROCUREMENT UNDER CLAIMS
AGREEMENT BASED ON EXISTING LIST OF JAPANESE PRODUCTS AND
SERVICES, IN ORDER TO USE REMAINING CLAIMS AGREEMENT FUNDS TO
PURCHASE OCEAN GOING VESSEL FOR INTER-ISLAND USE WITHIN TTPI.
OBJECT OF PROPOSED CHANGE WOULD BE TO SIMPLIFY REMAINING
PROCUREMENT FOR TTPI AND TO PURCHASE ONE MORE VESSEL THAN
WOULD OTHERWISE BE POSSIBLE USING ONLY TTPI BUDGETED FUNDS.
FONOFF REPS REACTED COOLLY TO INFORMAL PRESENTATION OF THIS
IDEA. IN EMBASSY VIEW, INTERIOR'S EXPECTATION OF ACQUIRING
ADDITIONAL VESSEL BY USING CLAIMS FUNDS COULD BE BLOCKED BY
REQUIREMENT OF MICRONESIA CLAIMS ACT THAT EQUIVALENT AMOUNT
OF TTPI BUDGETED FUNDS BE PAID TO CLAIMS COMMISSION AS
JAPANESE PRODUCTS AND SERVICES ARE PROVIDED. INTERIOR
MAY REQUEST STATE TO FORMALLY PROPOSE IDEA TO GOJ;
HOWEVER, IN VIEW OF LONG NEGOTIATING HISTORY OF CLAIMS
AGREEMENT AND RELATED DOCUMENTS EMBASSY WILL BE RELUCTANT
TO PRESS GOJ TO ACCEPT. END SUMMARY.

1. DURING VISIT TO TOKYO, INTERIOR DOTA DIR FRED ZEDER

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DISCUSSED WITH OFFICIALS OF JAPANESE TRADING COMPANY

(NISSHO IWAI) INTERIOR/TTPI PLANS TO PROCURE ADDITIONAL OCEAN GOING VESSELS FOR INTER-ISLAND USE WITHIN TTPI. ACCORDING ZEDER, TTPI FY 76 BUDGET INCLUDES 4 MILLION DOLLARS FOR THIS PURPOSE, AND ADDITIONAL 4 MILLION DOLS IS EXPECTED TO BE INCLUDED IN FY 77 BUDGET. TYPE OF SHIP ENVISAGED BY INTERIOR/TTPI WOULD COST AROUND 2.2 MILLION DOLS EACH ACCORDING TO PRELIMINARY NISSHO IWAI PROPOSAL.

2. JUST PRIOR TO ABOVE MEETING, ZEDER STATED TO EMBOFF THAT DEPT OF INTERIOR IS ALSO ANXIOUS TO UTILIZE MOST OF REMAINING UNEXPENDED BALANCE OF JAPANESE GRANT AND INTEREST FUNDS UNDER MICRONESIA CLAIMS AGREEMENT--WHICH PRESENTLY AMOUNT TO SOME 2.5 MILLION DOLS--TO PURCHASE ONE ADDITINAL INTER-ISLAND VESSEL OVER AND ABOVE NUMBER WHICH COULD BE PROCURED WITH TTPI'S BUDGETED FUNDS ALONE. AS ZEDER EXPRESSED THIS THOUGHT AT MEETING WITH NISSHO IWAI, HE NOTED THAT JAPANESE GOVT APPROVAL WITH RESPECT TO CLAIMS AGREEMENT FUNDS WOULD BE NECESSARY. HE SUGGESTED, HOWEVER, THAT ADDING CLAIMS AGREEMENT FUNDS TO TTPI FUNDS ALREADY BUDGETED FOR SHIPS COULD IMPROVE COMPETITIVE POSITION OF JAPANESE FIRMS, WHICH, BIDDING ON LARGER NUMBER OF VESSELS, MIGHT BE ABLE TO OFFER A MORE COMPETITIVE PRICE PER BOAT VIS-A-VIS THEIR LIKELY TAIWANESE, KOREAN AND AMERICAN COMPETITORS.

3. FOLLOWING ABOVE MEETING, EMBOFF EXPLAINED TO ZEDER LENGTHY NEGOTIATING HISTORY OF CLAIMS AGREEMENT AND RELATED DOCUMENTS, INCLUDING LIST OF PRODUCTS AND SERVICES, AND SAID THAT EMBASSY WOULD REQUIRE INSTRUCTIONS FROM WASHINGTON BASED ON INTERDEPARTMENTAL AGREEMENT BEFORE IT COULD PROPOSE CONTEMPLATED ALTERATION OF LIST TO GOJ. EMBOFF FURTHER STATED VIEW THAT JAPANESE WERE NOT LIKELY TO WELCOME SUCH PROPOSAL IF MADE. NEVERTHELESS, AT STRONG URGING OF ZEDER, EMBOFF LATER IN DAY INFORMALLY BROACHED IDEA WITH FONOFF REPS FROM SECOND ECONOMIC COOPERATION DIV (SASAKI AND TANAKA), MAKING CLEAR THAT IDEA WAS NOT USG PROPOSAL BUT ONLY IDEA HELD WITHIN INTERIOR DEPT, AND THAT EMBOFF HAD LIMITED OFFICIAL USE

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NO INSTRUCTIONS FROM WASHINGTON CONCERNING IDEA. FONOFF REPS WERE CLEARLY TAKEN ABACK BY PROPOSAL THEY CHARACTERIZED AS QTE FANTASTIC UNQTE. IN RESPONSE TO FONOFF QUESTIONS, TTPI REP (QUIGLEY) STRESSED THAT REGARDLESS WHETHER A) LIST OF PRODUCTS AND SERVICES IS ALTERED TO ALLOW PROCUREMENT OF INTER-ISLAND VESSEL, AS INTERIOR WISHES, OR B) PROCUREMENT PROCEEDS BASED ON ALREADY AGREED LIST (WHICH HE SAID WOULD PROBABLY IN ANY EVENT REQUIRE LESS

SUBSTANTIAL ALTERATIONS IN AMOUNT OF ROUGHLY 300 MILLION YEN), TTPI IS DETERMINED TO COMPLETE PROCUREMENT BY AGREED DEADLINE OF OCT 1976. AT END OF MEETING, FONOFF REPS LIMITED THEMSELVES TO TAKING NOTE OF SHIP IDEA AND UNDERTAKING TO RESPOND IN DUE COURSE.

4. EMBASSY COMMENT. AS DEPT IS AWARE, TTPI REPS HAVE INDICATED ON SEVERAL OCCASIONS (E.G. TOKYO 17837) THAT IT WILL BE NECESSARY TO AMEND LIST OF PRODUCTS AND SERVICES. FONOFF HAS INDICATED ITS WILLINGNESS TO CONSIDER ONE MORE USG REQUEST FOR AMENDMENT BUT HAS INSISTED THAT ORIGINAL BREAKDOWN OF LIST INTO THREE EQUAL CATEGORIES OF CONSUMER GOODS, CAPITAL GOODS, AND ECONOMIC DEVELOPMENT PROJECTS SHOULD BE PRESERVED. INTERIOR'S PRESENT PROPOSAL FOR TERMINATING PROCUREMENT BASED ON EXISTING LIST AND USING ALL REMAINING FUNDS FOR SINGLE INTER-ISLAND VESSEL GOES BEYOND EARLIER PROPOSALS BOTH IN THE MONETARY VALUE OF THE PROPOSED ALTERATION AND IN DEPARTING FROM THE AGREED THREE-WAY DIVISION OF THE LIST. IN VIEW OF THE LENGTHY AND TEDIOUS NEGOTIATING HISTORY OF CLAIMS AGREEMENT AND RELATED DOCUMENTS, EMBASSY IS RELUCTANT TO PRESS FOR A MAJOR CHANGE AT THIS LATE DATE IN THE ABSENCE OF GOOD REASON TO DO SO.

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5. EMBASSY'S UNDERSTANDING IS THAT INTERIOR WISHES TO

MAKE THE PROPOSED CHANGE FOR TWO REASONS: FIRST, TO SIMPLIFY THE REMAINING PROCUREMENT BY OBTAINING THE NEED FOR MANY ADDITIONAL SMALL CONTRACTS, AND TO CONCLUDE PROCUREMENT USING ONE MORE CONTRACT ONLY. IN ADDITION TO EASING TTPI'S INTERNAL ADMINISTRATIVE BURDENS, THIS WOULD MAKE UNNECESSARY THE PROCUREMENT OFFICER'S BIWEEKLY TRIPS TO TOKYO AND RELATED EXPENSES. SECOND, TO SEEK LOWER UNIT COSTS ON THE INTER-ISLAND VESSELS BY USING THE CLAIMS FUNDS TO PURCHASE ONE MORE VESSEL THAN WOULD OTHERWISE BE POSSIBLE.

6. REGARDING THE FIRST REASON, EMBASSY RECOGNIZES THAT PROCUREMENT PROCEDURES HAVE POSED SOME DIFFICULTIES FOR TTPI AUTHORITIES, BUT THESE HAVE LARGELY BEEN OVERCOME AND DO NOT NOW, WE BELIEVE, CONSTITUTE A SUBSTANTIAL REASON FOR ALTERING INTERGOVERNMENTAL AGREEMENT WITH ONLY TEN MONTHS REMAINING IN PROCUREMENT PERIOD. WE STRONGLY DOUBT THAT GOJ WILL FIND INTERNAL USG ADMINISTRATIVE PROBLEMS SUFFICIENT TO JUSTIFY ALTERATION OF AGREEMENT WITH LESS THAN HALF OF PROCUREMENT REMAINING.

7. REGARDING SECOND REASON, IT IS NOT CLEAR TO EMBASSY WHETHER IT WOULD IN FACT BE POSSIBLE TO PURCHASE ONE MORE BOAT BY UTILIZING CLAIMS AGREEMENT FUNDS THAN LIMITED OFFICIAL USE

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WOULD BE POSSIBLE USING ONLY REGULARLY BUDGETED TTPI FUNDS. SINCE MICRONESIA CLAIMS ACT REQUIRES THAT FUNDS APPROPRIATED TO TTPI FOR SUPPLIES OR CAPITAL IMPROVEMENTS SHALL BE PAID INTO MICRONESIA CLAIMS FUND AS JAPANESE PRODUCTS AND SERVICES ARE PROVIDED, THE PURCHASE OF AN ADDITIONAL VESSEL OUT OF CLAIMS FUNDS WOULD REQUIRE TTPI TO PAY EQUIVALENT DOLLAR AMOUNT TO CLAIMS COMMISSION, PRESUMABLY OUT OF FUNDS ALREADY BUDGETED FOR OTHER ITEMS. AS FAR AS WE KNOW, THE QUESTION OF WHETHER TTPI HAS SUFFICIENT POLICY OR BUDGET FLEXIBILITY TO DO THIS HAS NOT BEEN ADDRESSED.

8. IN VIEW EARLIER CRITICISM DIRECTED AGAINST USG FOR FAILURE TO CONSULT WITH MICRONESIA REPS RE ORIGINAL CLAIMS AGREEMENT AND LIST OF PRODUCTS AND SERVICES, EMBASSY BELIEVES FULL CONSULTATIONS WITH CONGRESS OF MICRONESIA REPS WOULD BE ESSENTIAL IF USG DECIDED TO ESPOUSE INTERIOR'S PROPOSED CHANGE. HOWEVER, SUCH CONSULTATIONS ARE HIGHLY LIKELY TO STIMULATE COM TO RENEWED CRITICISM OF USG REGARDING ORIGINAL AGREEMENT AND ITS PERCEIVED INADEQUACY, AND TO NEW DEMANDS FOR ADDITIONAL COMPENSATION. CONSULTATIONS WOULD THUS APPEAR TO BE NO WIN SITUATION FOR USG. EMBASSY STRONGLY RECOMMENDS THAT USG AVOID THIS PROSPECT BY CONCENTRATING

ON IMPLEMENTING AGREEMENT BASED ON PRESENT LIST OF
PRODUCTS AND SERVICES WITHIN PERIOD EARLIER AGREED UPON
(ENDING OCT 1976).

9. IN VIEW OF PAST EXPERIENCE AND INITIAL INFORMAL
REACTION IT APPEARS HIGHLY UNLIKELY THAT FONOFF WILL
RESPOND FAVORABLY TO INTERIOR'S PROPOSAL.
INTERIOR REPS MAY NEVERTHELESS CONTACT DEPT IN NEAR
FUTURE WITH REQUEST USG MAKE FORMAL PROPOSAL TO
GOJ. FOR REASONS GIVEN ABOVE, EMBASSY WILL BE RELUCTANT
TO PRESS GOJ TO ACCEPT PROPOSAL. END COMMENT.
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